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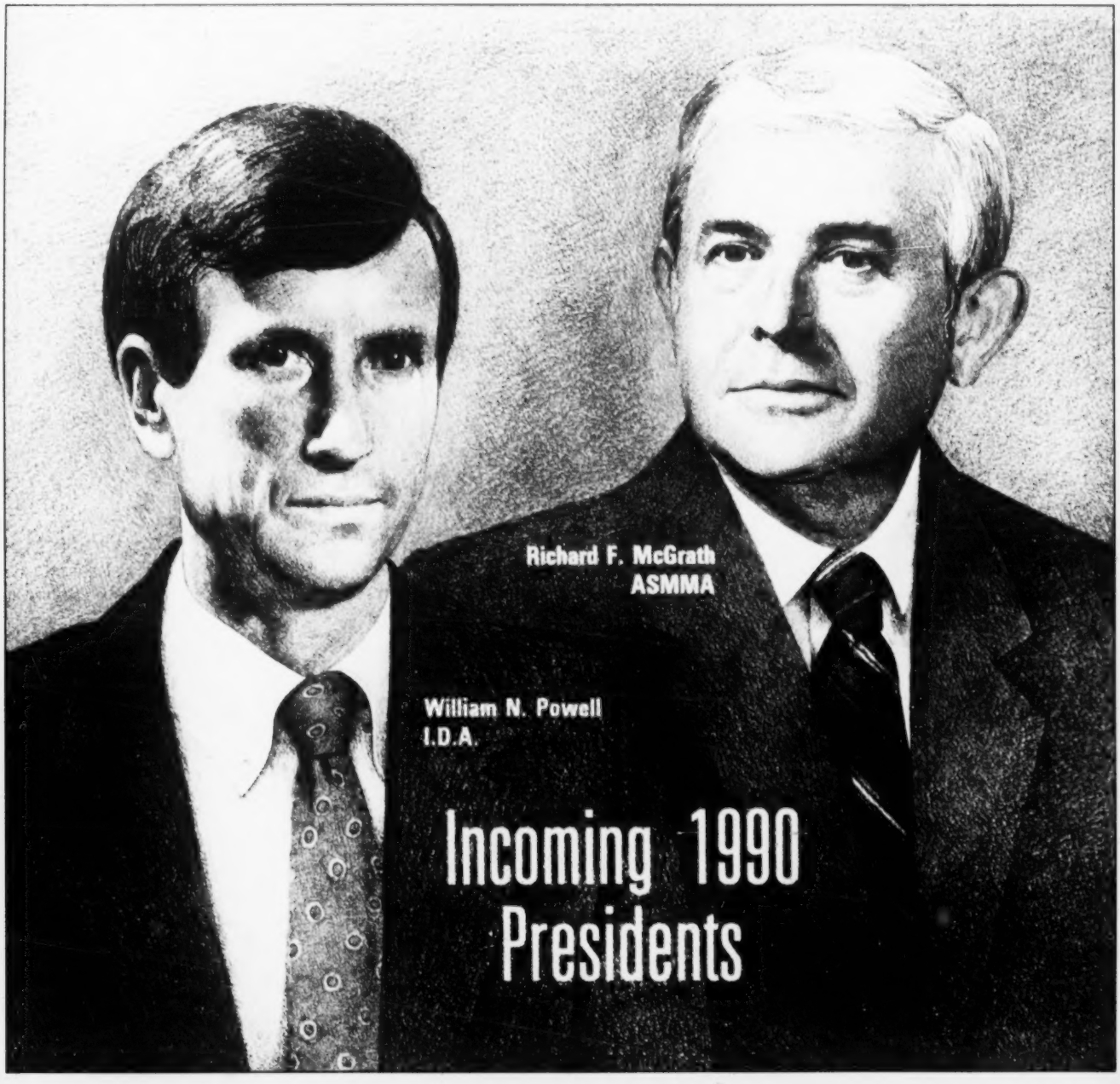
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

The Industrial Distribution Convention



Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO.5 MAY 1990 A CAHNERS PUBLICATION

At the helm of the IDA/ASMMA Union in 1990 will be Nick Powell (left) of IDA and Dick McGrath of ASMMA.

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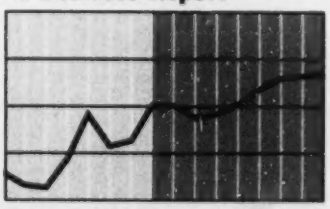

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PARTNERING

THE TIES THAT BIND

Some distributors complain that effective vendor sales support is hard to come by. The solution? Find suppliers who treat your company like a partner.

By John G.F. Bonnanzio, Associate Editor

"Mediocre." That's how Walter Bates describes the quality of sales support his company typically receives from its vendors. And it seems that the president of Nashville Rubber & Gasket Co. is not alone in that assessment. In fact, according to *ID*'s 1989 *Survey of Distributor Operations*, only 11% of industrial suppliers rated their vendors' sales support as "excellent" (see chart). Which, of course, leads to the obvious question: why such a disappointing performance?

Needless to say, distributors and their suppliers have decidedly different views. As Bates sees it, vendors are all too willing to send inexperienced reps into the field. Of his 25 major suppliers, Bates says that only 5 or 6 are "exceptionally" well qualified. "Many of these guys are deficient in end-user contact," he complains. "They don't understand our customers' problems and it's not our job to teach them."

Unfortunately, that view seems widely held, not only by speciality distributors, but by generalists such as California's Southwest Industrial Supply House. Says president Michael Maluccio, "Our problem is with those suppliers where the total dollars aren't there. However, our top vendors are very receptive to us—they're willing to listen." In some respects, he says, relationships with manufacturers can evolve into a vicious cycle: the more his company wants to push a particular product line, the greater the need for vendor support up front. But without adequate sales volume, suppliers are sometimes hesitant to invest a rep's time and his company's resources.

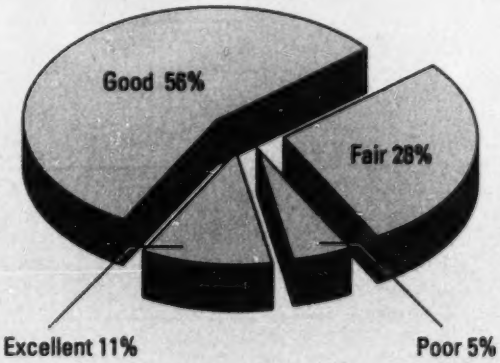
On the other hand, Maluccio appreciates the problems faced by manufacturers. "It's expensive to put a lot of people in the field," he concedes, recalling one supplier who recently had 11 reps covering 10 western states, and today has only 5. "We don't see the good people often enough. But the better manufacturers are learning to listen to their distributors."

One company with its ear to the ground is Nycoil Company, a New Jersey hose and fittings manufacturer. Says marketing manager Robert Rodgers, "The key thing we provide our distributors is good service." However, service is not restricted to delivering products on time and filling orders correctly. Rodgers says that Nycoil's responsibilities encompass consistent quality, competitive pricing, providing samples, end-user advertising, screening sales leads, and joint sales calls with distributors.

Further, the company makes its top management accessible by attending myriad industry trade shows. For example, in a typical year Rodgers will attend conventions sponsored by the Natl. Assn. of Hose and Accessories Distributors, the Natl. Fluid Power Assn., the Industrial Distribution Assn. (including regional meetings), and at local trade shows and dis-

RANKING VENDOR SALES SUPPORT

In general, most of our vendors provide the following level of sales support:

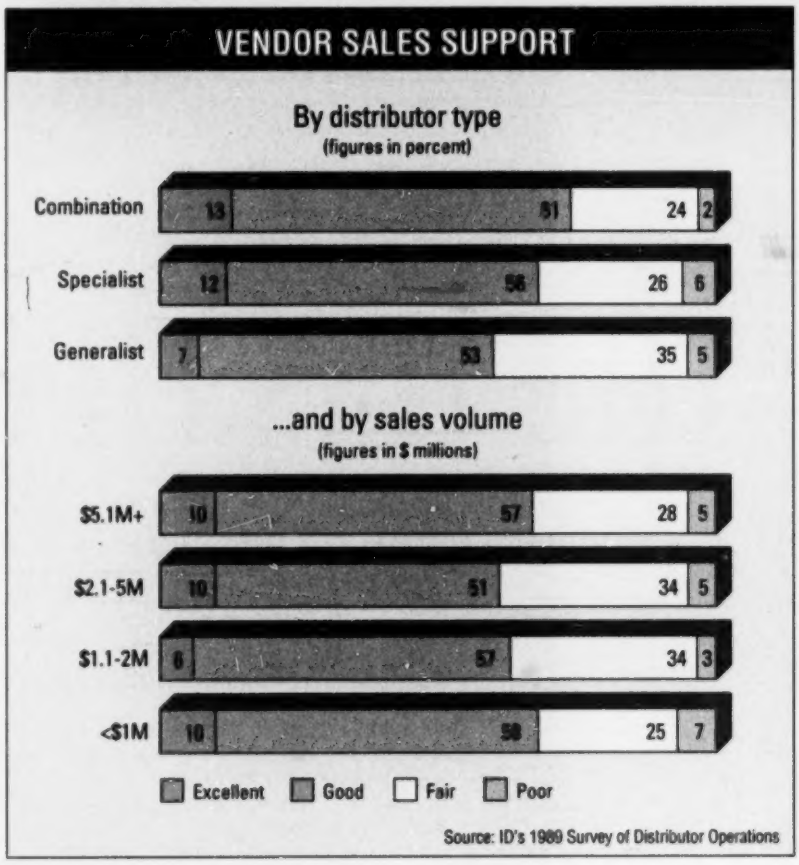


Source: ID's 1989 Survey of Distributor Operations

tributors' product fairs. Says Rodgers, "Distributors have different philosophies about the value of these meetings. But those who are receptive and come to see us, they're the ones who generally produce results."

At Martin Sprocket & Gear Inc., a manufacturer of power transmission products, sales vp John Martin doesn't see a problem with his distributors. "I would say that the level of vendor sales support in the pt industry is very high." The reason? Martin explains that unlike other product lines, successful pt sales require a higher level of manufacturer-distributor cooperation. Maintaining an adequate inventory simply isn't enough, he says. "But developing sales territories, market penetration, service and training are all-important to our distributors' salesmen as well as to us."

And Martin isn't just talking. For two of the past three years the company has won the Trailblazer Award bestowed by the Power Transmission Distributors Assn. The award recognizes a manufacturer "who has demonstrated exceptional leadership, innovation and motivation"—three key ingredients of strong vendor support. Says Martin, "we see distributors as partners."



ATTENTION GETTERS

But not all manufacturers view their distributors quite the same way, or so says Fred Lorenz of Michigan's Saw & Specialty Corp. "We have approximately 12 major suppliers and," he grumbles, "I can't rely on them across the board." In fact, Lorenz says that only 3 of his suppliers provide "excellent" sales support, and that most are only "good."

However, as a specialty distributor, statistics show that Lorenz will get better attention from his suppliers than generalists, but not quite as much as combination houses (see chart). While 60% of general line houses rate their manufacturers with a positive sales support performance, specialists fared better with 69%, and combination houses (those who sell to non-industrial markets such as the automotive-aftermarket), were most satisfied with 74%.

Why were generalists at the bottom of the list and combination houses at the top? One explanation involves expectations. A distributor selling such relatively "low-tech" items as plumbing supplies or automotive hose to a local garage is likely to place greater value on accurate order fills and on-time delivery than technical assistance. There is simply less of a need to visit with suppliers on a regular basis.

"Sometimes distributors don't want to see their vendors at all," says Gabor Farkas of Coilhose Pneumatics. Notes the company's president, "the amount of vendor sales support a distributor receives depends on what he's selling." The fact is, he says, "some products simply don't require a lot of technical assistance. A distributor's own expertise will affect how often they want our help."

Confirms Don Rooke, vp of sales for American Saw & Manufacturing Co., "You're obviously going to give the specialists selling to the high production users more assistance because the need for technical assistance is generally greater." On the other hand, Rooke also recognizes that generalists sometimes need "a little more hand holding" because employee turnover is greater, and they must understand many more

For more information

American Saw & Mfg. Co.
301 Chestnut Street
East Longmeadow, MA 01028
Attn: Don Rooke
Circle No. 286

Coilhose Pneumatics
200 Clay Avenue
Middlesex, NJ 08807
Attn: Gabor Farkas
Circle No. 287

Martin Sprocket & Gear, Inc.
P.O. Box 888
Arlington, TX 76004
Attn: John Martin
Circle No. 288

Nycoil Company
57 South Avenue
Fanwood, NJ 07023
Attn: Robert Rodgers
Circle No. 289

Pacific Grinding Wheel Co., Inc.
13120 Highway 99
P.O. Box 468
Marysville, WA 98270
Attn: Ronald Olsen
Circle No. 290

Ties

commodity and product lines.

To deal with this problem, Rooke says that American Saw has gone to extraordinary lengths to educate both its own people as well as its distributors. The company's highly successful "University of Lenox" program trains both distributors and reps, and American Saw offers three levels of schooling for selling saw blades. In addition, 60 salesmen recently attended a one-week program devoted to better understanding the distributor's business. The program's title? "How to Work with Distributors." Says Rooke, "Clearly, we're committed to strong working partnerships."

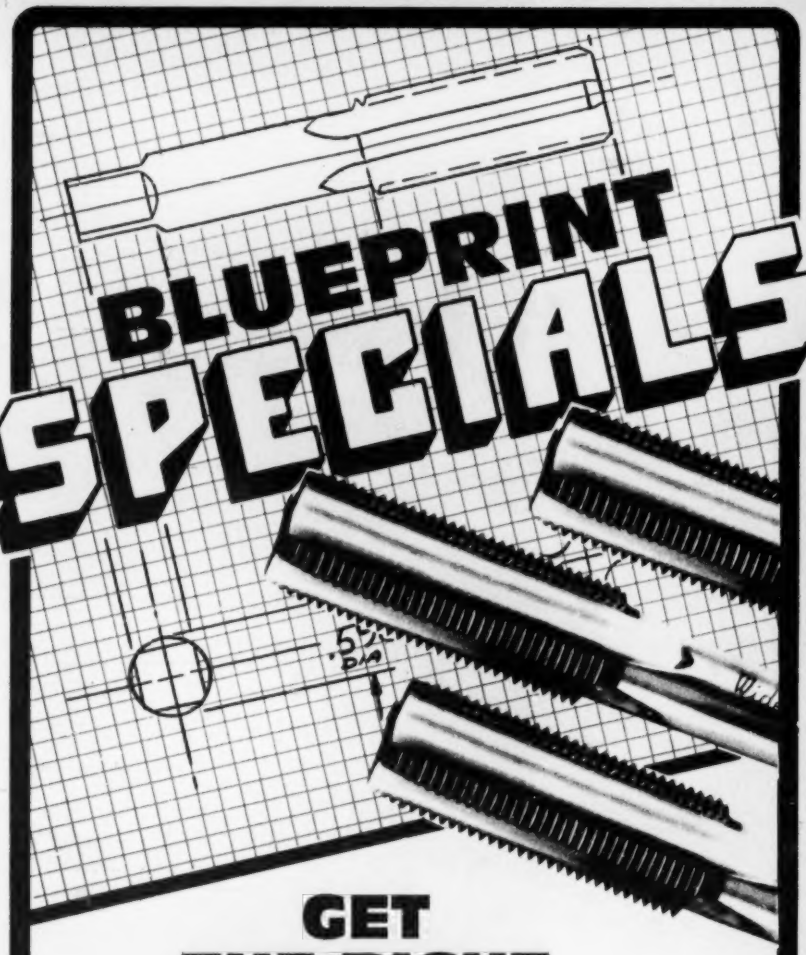
So too is Ronald Olsen of the Pacific Grinding Wheel Co., which has been running 2½ day training seminars with distributors since 1980. Says the company's sales vp, "We organize all of our training programs to suit the distributor's needs."

For example, in addition to offering training videos on abrasives manufacturing and applications, Pacific's brochures are targeted at specific end-user industries such as automotive, welding, woodworking, and tool room and production. Classes are similarly organized, and expenses are shared—housing is picked up by Pacific and the distributor pays for transportation to the manufacturers' facilities in Marysville, WA.

But despite manufacturers redoubling their sales support efforts (as well as reconsidering and reorganizing their traditional vendor-retailer relationships), some distributors remain unimpressed. Says Dick O'Connell, president of Seattle's Abrasives Northwest, Inc., "Training is not as good as it used to be. The onus of learning new products and their applications now rests more squarely on the distributor's shoulders."

Because so many manufacturers have cut back on the number of their field reps, O'Connell believes that even the distributor's customers have come to expect the least in terms of vendor sales support.

But there is a silver lining. Manufacturers and distributors with strong working partnerships based on mutual respect are likely to develop competitive advantages in areas ranging from product knowledge and applications to credit assistance and inventory control. Observes Pacific's Ronald Olsen, "I'm glad we're providing the distributor support. And I'm happy to hear that some of our competition is not." □



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BUSINESS REPORT

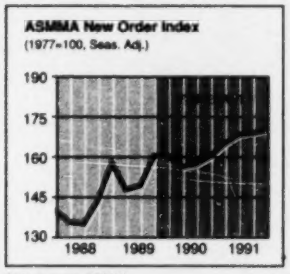
BY KRIS BLEDOWSKI

"Core" inflation slows

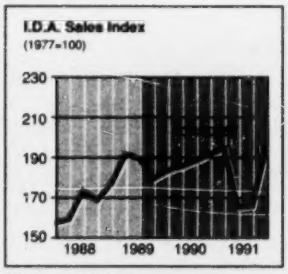
Prices for intermediate materials will rise less.

When producer inflation rates for finished products are adjusted for volatile food and energy components, this 'core' series has shown higher overall rate of change than has the unadjusted index since 1982. This somewhat surprising fact is explained by a drop of energy and food prices between mid-1984 and the beginning of 1987. However, since 1989 the overall index has risen slightly faster than the adjusted one for the first time in a decade.

This seeming aberration was caused by the drought of 1988 and oil price hikes which occurred roughly at the same time. As a result, inflation rates for these commodity groups were higher than that for the rest of the economy, pushing up the total index.



Data source: ASMMA
Forecast source: Cahners Economics



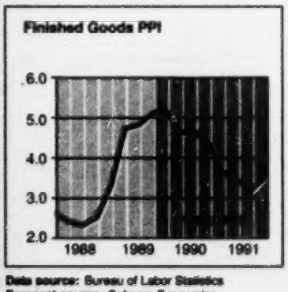
Data source: I.D.A.
Forecast source: Cahners Economics

The trend for the intermediate goods is similar, but the core inflation for intermediate goods has turned below the total index only in the past quarter. This difference in timing provides a partial proof that final producers were hiking prices above those seen at intermediate stages of processing.

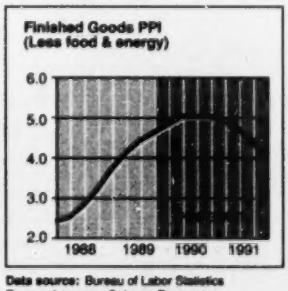
Finished goods were 5.1% more expensive in 1989 but only 4.6% dearer if food and energy had been excluded. Cahners forecasts all producer prices to rise 4.3% this year and 3.5% in 1991. Finished goods less food and energy will be 5% more expensive this year and 4% in 1991.

On the other hand, inflation for industrial machinery and components has been more muted for the past three years. The producer price index for machinery and equipment was only 3.8% higher in 1989 than it had been in the preceding year. The corresponding previous-year comparison rates were 2.7% and 1.5% for 1988 and 1987, respectively.

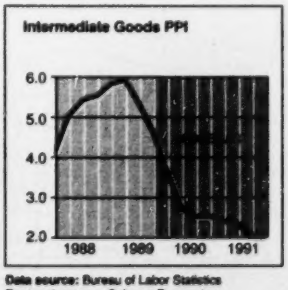
The reason for low inflation in manufacturing has been spare capacity and ample labor pool (see Supply Outlook). Wages have been growing mainly in services, while manufacturing inflation-adjusted compensation remained flat. In addition, in spite of a mini-boom, manufacturing industries have not run out of capacity except in process sectors like paper and chemicals. As a result, there was no pressure on prices from the supply side. □



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics



Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics



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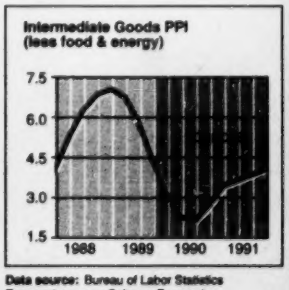


Data source: Bureau of Labor Statistics
Forecast source: Cahners Economics

(1977=100)	SALES Feb. 1990	SALES Jan. 1990	SALES Feb. '90 vs Feb. '89 % change	RECEIVABLES Feb. 1990 days	INVENTORY Feb. 1990 % change
TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EAST	193.5	189.2	6.0	47.0	+0.8
SOUTH	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CENTRAL	188.0	188.1	10.3	40.0	-1.0
WEST	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOURCE: Industrial Distribution Assn.

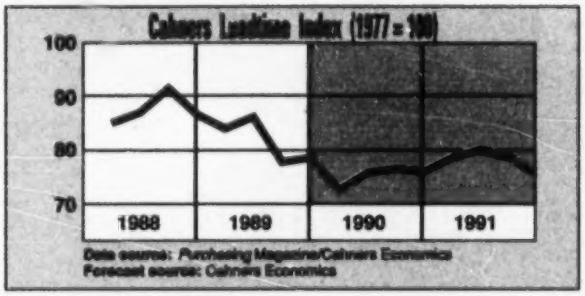
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

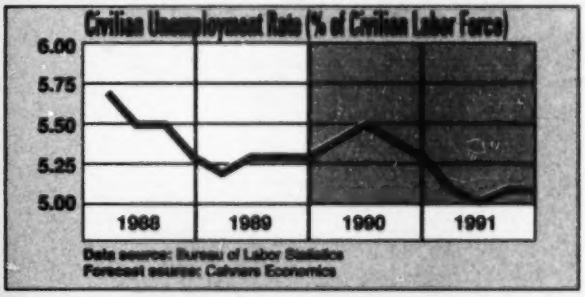
Mfg. employment holds steady

Outlook for construction brightens.

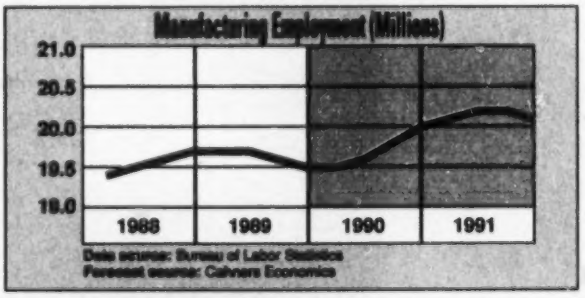
The civilian unemployment rate is generally a reliable indicator of economic downturns. During the recession years of 1975 and 1982, unemployment averaged 8.5% and 9.7% respectively. This year's employment outlook is very rosy when examined from an historical perspective; the unemployment rate is expected to be only 5.4%, up slightly from 1989's rate of 5.2%. Manpower, Inc., recently conducted a hiring expectations survey during the first quarter of 1990 and found that plans to hire new employees were only marginally below those of first quarter 1989, indicating a soft landing for the economy rather than a recession.



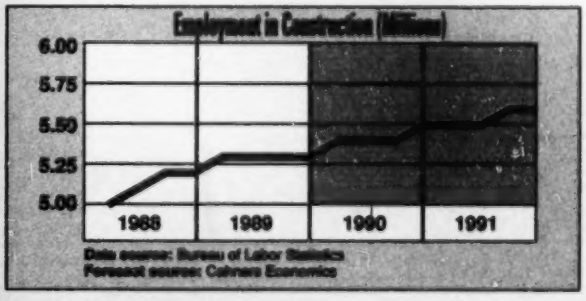
This year about 20.3 million civilians are expected to be unemployed in each quarter. Thanks to continued growth of available jobs, however, this will translate to a 5.4% unemployment rate, only a 2.8% increase from 1989. Most of the employment growth will be in the service sector, while employment in the goods-producing sector (primarily construction and manufacturing) will inch up 0.6%. Manufacturing employment stood at 19.6 million in 1989, will increase to 19.7 million this year, and is expected to climb to 20.1 million in 1991. In addition, construction employment will rise 2.1% in 1990 on the strength of a rebounding residential market. Job growth in the manufacturing sector will inch up by 0.6%, reflecting this year's slump. Expect jobs to grow by 2.0% in 1991, however, as the economy warms up. Since the economy's soft-landing will keep the unemployment rate steady, wage increases will not be severe. The average hourly wage in private industry is projected to rise 3.6% to $10.00. The employment cost index for goods-producing industries, which measures changes in benefits, salaries and non-salary wages, is also expected to rise by only 3.6%.



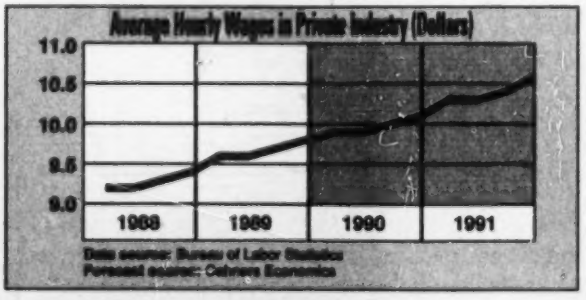
The unemployment rate will inch up slightly this year, but the economy's soft landing will keep it under control.



The number of jobs in manufacturing will inch up 0.5%, hovering around 20.1 million each quarter.



Employment in construction will jump by 2.1% in 1990, despite slack spending in many areas around the country.



Hourly wages in private industry will rise a moderate 3.5%, tamed by the excess capacity in the labor market.

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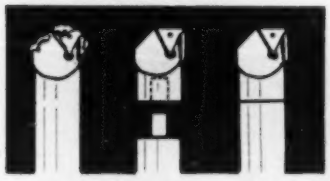

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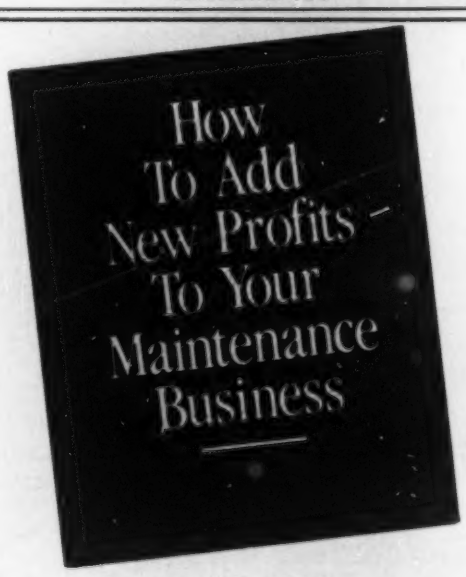

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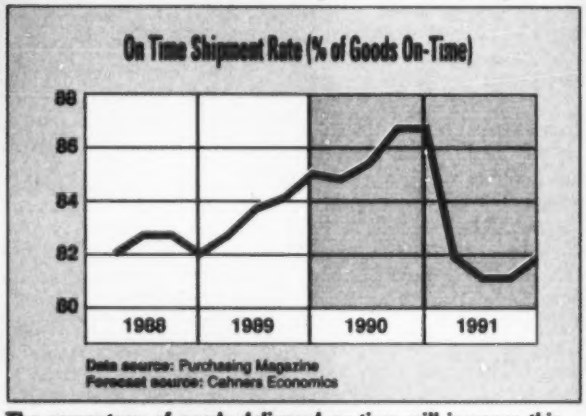
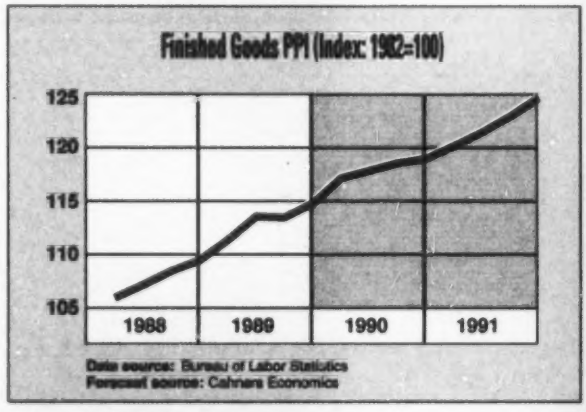
SUPPLY OUTLOOK

Soft demand lessens leadtimes

Leadtimes have been volatile lately, but the trend has been clear: down. For each month since April, 1989, Cahner's Leadtime Index of 125 Industrial Materials has been lower than the year-previous number. For example, the March 1990 number was 12.7% below March 1989's. This was because 75% of the materials covered in the survey had shorter leadtimes than last year. In addition, nearly 86% of the purchasing managers surveyed reported that goods were arriving when promised. Expect delivery times to slip by 6.4% this year, but to stretch 2.1% in 1991 on manufacturing's renewed strength. □



The percentage of goods delivered on time will increase this year due to an overall manufacturing slump.



Producer prices on finished goods will increase 4.3%, a sign of stubborn, but controlled, inflation.

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